uMngeni Municipality

Annual Financial Statements
for the year ended 30 June 2012

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the entity’s cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The annual financial statements set out on pages 3 to 50, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Member
Designation

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 3 to 50 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Acting Municipal Manager
31 August 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Operating lease asset		51,362	-
Other receivables	8	2,516,448	787,945
Consumer debtors	9	40,770,707	47,336,399
Investments	7	2,415,024	3,207,775
Cash and cash equivalents	10	208,754	4,760
		45,962,295	**51,336,879**
Non-Current Assets			
Investment property	3	-	1,010,000
Property, plant and equipment	4	444,771,781	433,661,853
Intangible assets	5	40,675	24,071
		444,812,456	**434,695,924**
Total Assets		**490,774,751**	**486,032,803**
Liabilities			
Current Liabilities			
Annuity Loans	13	6,272,969	2,912,304
Finance lease obligation	14	949,661	-
Trade and other payables from exchange transactions	17	39,233,421	50,194,393
VAT payable	18	2,557,140	2,359,265
Consumer deposits	19	2,160,881	2,049,724
Retirement benefit obligation	6	1,657,439	759,627
Unspent conditional grants and receipts	15	13,661,956	21,749,757
Bank overdraft	10	6,204,218	1,412,015
		72,697,685	**81,437,085**
Non-Current Liabilities			
Annuity Loans	13	34,058,881	38,982,858
Finance lease obligation	14	1,226,886	1,601,306
Retirement benefit obligation	6	18,347,867	17,808,525
Provisions	16	8,101,645	7,267,176
		61,735,279	**65,659,865**
Total Liabilities		**134,432,964**	**147,096,950**
Net Assets		**356,341,787**	**338,935,853**
Net Assets			
Reserves			
Revaluation reserve	11	217,080,864	219,123,488
Housing operating account	12	14,847,289	15,286,278
Accumulated surplus		124,413,634	104,526,087
Total Net Assets		**356,341,787**	**338,935,853**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	21	91,124,460	76,747,663
Service charges	22	58,637,395	46,015,209
Property rates - penalties imposed and collection charges		2,319,310	3,380,394
Rental of facilities and equipment		950,702	789,232
Fines		3,822,767	163,380
Licences and permits		1,929,645	2,940,142
Government grants & subsidies	23	57,259,012	51,672,544
Departmental charges		14,676,690	13,867,962
Other income	24	7,980,143	18,710,707
Interest received - investment	30	1,284,679	1,636,335
Total Revenue		**239,984,803**	**215,923,568**
Expenditure			
Personnel	27	(73,267,455)	(74,745,759)
Remuneration of councillors	28	(5,167,878)	(4,197,725)
Depreciation and amortisation		(13,135,518)	(8,727,163)
Finance costs	31	(6,140,405)	(6,527,296)
Debt impairment	29	(18,585,422)	(4,911,534)
Collection costs		(177,207)	(2,000,816)
Repairs and maintenance		(3,558,496)	(5,812,406)
Bulk purchases	33	(51,624,822)	(38,382,635)
Contracted services		(1,063,011)	(2,018,788)
Grants and subsidies paid	26	(2,378,898)	(3,486,600)
Departmental recharges		(14,676,690)	(13,867,962)
General Expenses	25	(36,492,820)	(36,241,059)
Total Expenditure		**(226,268,622)**	**(200,919,743)**
Loss on disposal of assets and liabilities		(65,314)	(215,338)
Surplus for the year		**13,650,867**	**14,788,487**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Housing operating account	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2010	**10,692,825**	**11,944,273**	**22,637,098**	**129,166,195**	**151,803,293**
Revaluation of PPE	143,135,217	-	143,135,217	-	143,135,217
Transfer funds to operating account	-	2,798,358	2,798,358	-	2,798,358
Deficit for the year	-	(1,069,321)	(1,069,321)	-	(1,069,321)
Interest received from external investment	-	1,612,968	1,612,968	-	1,612,968
Net income recognised directly in net assets	143,135,217	3,342,005	146,477,222	-	146,477,222
Surplus for the year	-	-	-	14,788,487	14,788,487
Total recognised income and expenses for the year	143,135,217	3,342,005	146,477,222	14,788,487	161,265,709
Restatement of property, plant an equipment	65,295,446	-	65,295,446	-	65,295,446
Movement in accumulated surplus	-	-	-	(39,428,595)	(39,428,595)
Total changes	208,430,663	3,342,005	211,772,668	(24,640,108)	187,132,560
Balance at 01 July 2011 as restated	**219,123,488**	**15,286,278**	**234,409,766**	**104,526,087**	**338,935,853**
Prior year adjustment	-	-	-	2,124,268	2,124,268
Net income recognised directly in net assets	-	-	-	2,124,268	2,124,268
Surplus for the year	-	-	-	13,650,867	13,650,867
Total recognised income and expenses for the year	-	-	-	15,775,135	15,775,135
Revaluation of property, plant and equipment	18,830,040	-	18,830,040	-	18,830,040
Interest Paid low cost housing	-	825,459	825,459	(825,459)	-
Transfer of funds to Housing operating account	-	(1,264,448)	(1,264,448)	1,264,448	-
Revaluation surplus winddown	(20,872,664)	-	(20,872,664)	-	(20,872,664)
Consumer debtor corrections	-	-	-	3,673,423	3,673,423
	(2,042,624)	(438,989)	(2,481,613)	19,887,547	17,405,934
Balance at 30 June 2012	**217,080,864**	**14,847,289**	**231,928,153**	**124,413,634**	**356,341,787**
Note(s)	11				

Statement of cash flows

Figures in Rand	Note(s)		
Cash flows from operating activities			
Cash receipts from customers		242,550,495	232,218,476
Cash paid to suppliers and employees		(221,786,558)	(208,823,547)
Cash generated from operations	34	**20,763,937**	23,394,929
Interest income		-	-
Finance costs		-	-
Net cash from operating activities		**20,763,937**	**23,394,929**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(26,528,233)	(21,621,410)
Sale of property, plant and equipment	4	478,799	(1)
Sale of investment property	3	925,000	-
Purchase of other intangible assets	5	(32,392)	(28,467)
Purchase of investments		792,751	1,382,099
Net cash from investing activities		**(24,364,075)**	**(20,267,779)**
Cash flows from financing activities			
Decrease in Borrowings		(1,563,312)	(5,201,119)
Increase in Finance lease liability		575,241	1,601,306
Net cash from financing activities		**(988,071)**	**(3,599,813)**
Total cash movement for the year		**(4,588,209)**	**(472,663)**
Cash at the beginning of the year		(1,407,255)	(934,592)
Total cash at end of the year	10	**(5,995,464)**	**(1,407,255)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

uMngeni Municipality is situated in the province of KwaZulu Natal in South Africa.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

An impairment loss on debtors is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include amounts incurred initially and costs incurred subsequently to add to, or to replace a part of a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Accounting Policies

1.3 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include amounts incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for infrastructure assets, electrical assets and roads and waste water network which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period

It is the policy of the Municipality to perform revaluations every four years.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit. In which case, the increase is recognised in surplus or deficit.

Any revaluation surplus in equity related to a specific item of property, plant and equipment is transferred to retained earnings when the asset is derecognised.

The revaluation surplus is transferred directly to retained earnings as the asset is used. The amount transferred each year is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	indefinite

Accounting Policies

1.3 Property, plant and equipment (continued)

Buildings	30 years
Plant and machinery	
• Specialised	10-15 years
• Other	2-5 years
Furniture and fixtures	7- 10 years
Motor vehicles	
• Specialised vehicles	10 years
• Other motor vehicles	5 years
Office equipment	3 years
Infrastructure	
• Roads and paving	30 years
• Pedestrian malls	30 years
• Electricity	20 -30 years
• Housing	30 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years
Bins and containers	5 years
Water network	15 years
Landfill sites	15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Heritage assets

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Heritage assets are carried at cost less accumulated depreciation.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited to revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit. If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 years

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Accounting Policies

1.6 Financial instruments (continued)

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Accounting Policies

1.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Other post retirement obligations

The municipality provides post-retirement health care benefits and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.9 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

1.9 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating surplus.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.10 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Service charges for electricity are based on consumption by consumers as is recorded on each consumer's meter.

Meters are read each month and the revenue is recognised in the period in which invoices are raised.

Provisional estimates of consumption are made in periods where meter readings have not been able to be carried out. The revenue from these provisional readings is also recognised as revenue when invoiced.

Adjustments to provisional estimates and recognition of the amended revenue arising thereof are made in the invoicing period in which meters are read.

Revenue from the sale of electricity prepaid meter cards is recognised immediately in revenue.

Service charges for refuse removal are raised and recognised on a monthly basis in arrears.

Refuse charges are based on the application of the approved tariff to each property that has improvements, the category of property usage and the number of refuse containers on each property regardless of whether or not containers are emptied during the month.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service has been rendered and the fee has been charged or licenses and permits have been issued.

Income from agency services is recognised on a monthly basis once the income collected from agents has been quantified and the terms of the agency agreement have been complied with.

Interest, royalties and dividends

Interest is recognised in surplus or deficit using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another municipality without directly giving approximately equal value in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.11 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Penalty interest is raised on unpaid rates after the due date for payment and is recognised on a time proportion basis.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of spot fines and summonses is recognised when payment is received.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.12 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.19 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.20 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund.

Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 18: Segment Reporting

GRAP 23: Revenue from Non-exchange Transactions

GRAP 24: Presentation of Budget Information in the Financial Statements

GRAP 103: Heritage Assets

GRAP 20: Related Party Disclosure

GRAP 21: Impairment of non-cash-generating assets

GRAP 26: Impairment of cash-generating assets

GRAP 25: Employee benefits

GRAP 104: Financial Instruments

GRAP 105: Transfers of functions between entities under common control

GRAP 106: Transfers of functions between entities not under common control

GRAP 107: Mergers

3. Investment property

	2012			2011		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	-	-	-	1,010,000	-	1,010,000

Reconciliation of investment property - 2012

	Opening balance	Disposals	Depreciation	Total
Investment property	1,010,000	(951,669)	(58,331)	-

Reconciliation of investment property - 2011

	Cost	Impairments	Total
Investment property	1,550,695	(540,695)	1,010,000

Details of property

1 Mimosa Drive Hilton, Erf 1092 Hilton extension 10

- Purchase price: 28 February 2007	-	1,750,000
- Valuation deficit	-	(540,695)
- Depreciation	-	(199,305)
	-	**1,010,000**

Details of valuation

The effective date of the revaluations was 01 July 2010.

Revaluations were performed by the Councils valuers.

Evaluation is effective for a period of 4 years per the provisions of the MPRA.

The Council took a decision on 11 Novemeber 2011 to dispose of the investment property. The property was sold for R925,000 and the sale was completed on 6 June 2012. The loss on disposal of the property was R109,872.

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	130,568,095	(5,460,203)	125,107,892	112,137,009	(2,955,329)	109,181,680
Motor vehicles	8,770,448	(5,992,311)	2,778,137	9,200,003	(6,777,851)	2,422,152
Infrastructure	34,061,811	(6,780,623)	27,281,188	34,083,671	(5,562,288)	28,521,383
Electrical	92,725,077	(11,400,624)	81,324,453	89,885,475	(8,321,212)	81,564,263
Capital work in progress	18,072,328	-	18,072,328	-	-	-
Toolbox	5,382,259	(3,907,306)	1,474,953	9,674,090	(7,813,122)	1,860,968
Roads and water network	229,584,413	(43,494,487)	186,089,926	225,819,520	(18,477,473)	207,342,047
Heritage	2,942,038	(299,134)	2,642,904	2,942,038	(172,678)	2,769,360
Total	**522,106,469**	**(77,334,688)**	**444,771,781**	**483,741,806**	**(50,079,953)**	**433,661,853**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land and Buildings	109,181,680	-	-	18,830,040	(2,903,828)	125,107,892
Motor vehicles	2,422,152	1,767,631	(408,891)	-	(1,002,755)	2,778,137
Infrastructure	28,521,383	-	-	-	(1,240,195)	27,281,188
Electricity	81,564,263	2,839,601	-	-	(3,079,411)	81,324,453
Capital work in progress	-	18,072,328	-	-	-	18,072,328
Tool box	1,860,968	83,780	-	-	(469,795)	1,474,953
Roads and Storm water network	207,342,047	3,764,893	-	-	(25,017,014)	186,089,926
Heritage	2,769,360	-	-	-	(126,456)	2,642,904
	433,661,853	**26,528,233**	**(408,891)**	**18,830,040**	**(33,839,454)**	**444,771,781**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Work in progress	Disposals	Revaluations	Depreciation	Total
Land and Buildings	43,269,923	1,084,082	-	-	65,295,446	(467,771)	109,181,680
Motor vehicles	3,647,082	-	-	(215,337)	-	(1,009,593)	2,422,152
Infrastructure	25,804,694	3,890,890	-	-	-	(1,174,201)	28,521,383
Electrical	39,760,548	2,623,247	243,736	-	40,345,394	(1,408,662)	81,564,263
Tool box	2,161,552	433,765	-	-	-	(734,349)	1,860,968
Roads and Storm water network	94,594,031	5,758,167	7,587,523	-	102,789,823	(3,387,497)	207,342,047
Heritage	2,854,129	-	-	-	-	(84,769)	2,769,360
	212,091,959	**13,790,151**	**7,831,259**	**(215,337)**	**208,430,663**	**(8,266,842)**	**433,661,853**

Assets subject to finance lease (Net carrying amount)

Motor vehicles	1,125,270	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was 01 July 2011. Revaluations were performed by independent valuer, Mr Abubaker Rahim qualified valuator, of E-Valuations.

Land and buildings are re-valued independently every 4 years.

These assumptions were based on current market conditions.

The carrying value of the revalued assets under the cost model would have been:

Other information

During the year under review the municipality undertook an excercise to physically verify assets owned by the municipality as well as confirm such ownership.

As a result of the excersise certain assets were identified as owned by the municipality, that were not previously presented and those which were presented and not owned by the municipality.

The resulting adjustments have been put througth accumulated surplus.

Property, plant and equipment fully depreciated and still in use (Gross carrying amount)		
Motor Vehicles	29	-
Tool box	3,414	-
	3,443	**-**

Fair value(revalued amount) of property, plant and equipment not previously disclosed		
Properties	-	65,295,446

5. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	60,861	(20,186)	40,675	28,469	(4,398)	24,071

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	24,071	32,392	(15,788)	40,675

Reconciliation of intangible assets - 2011

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	-	28,467	(4,396)	24,071

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees.

Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.

The post-retirement medical aid subsidy for qualifying employees is 60% of the applicable medical aid.

The post-retirement medical aid for qualifying pensioners is 60% or 67% of the total monthly contribution to the applicable medical aid. Widow(er)s and orphans of eligible in-service members are not entitled to receive a subsidy on and after the death in-service of an employee.

The most recent actuarial valuation was performed on 30 June 2012 by Poneso Actuarial Consulting using the Projected Unit Credit Method.

The full liability has been recognised as at the date of the statement of financial postion.

Post retirement gratuity plan

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuation was performed on 30 June 2012 by Poneso Actuarial Consulting using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

	2012	2011
Carrying value		
Opening balance	(18,568,152)	(13,840,680)
Future service cost	(1,001,237)	(817,528)
Interest cost	(1,525,267)	(1,217,700)
Benefit payments	869,065	714,555
Actuarial gains/(losses)	220,285	(3,406,799)
Net liability	**(20,005,306)**	**(18,568,152)**
Non-current liabilities	(18,347,867)	(17,808,525)
Current liabilities	(1,657,439)	(759,627)
	(20,005,306)	**(18,568,152)**

Net expense recognised in the statement of financial performance

	2012	2011
Future service cost	1,001,237	817,528
Interest cost	1,525,627	1,217,700
Actuarial gains/(losses)	(220,285)	3,406,799
Curtailment or settlement	(869,065)	(714,548)
Total included in employee related costs	**1,437,514**	**4,727,479**

Figures in Rand	2012	2011

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.38 %	8.52 %
Health care cost inflation rate	7.07 %	7.22 %
Expected rate of return on assets	7.07 %	7.22 %
Salary increase rate	6.23 %	6.14 %
Medical cost trend rates	7.07 %	7.22 %
Net effective discount rate	1.22 %	1.22 %
Retirement age	-	-
Female	63	63
Male	63	63
number of eligible members	166	166
number of pensioner	23	21

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	2,575,159	1,782,933
Effect on defined benefit obligation	19,806,707	14,420,621

Defined contribution plan

Joint pension fund

All municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality.

Municipal employees are also members of the KwaZulu Natal Joint Municipal Provident Fund, South African Local Authorities (SALA) Provident and Retirement Funds.

All contributions have been included in the employee related cost note.

Figures in Rand	2012	2011

7. Investments

Unlisted investments		
Collateral security fixed deposits - Rand merchant Bank	1,157,865	1,098,513
Notice deposits - Absa Bank	1,093,402	2,109,262
Midlands development agency	163,757	-
	2,415,024	**3,207,775**
Council's valuation of unlisted investments	2,251,267	3,207,775
Average rate of return on investments	5%	5.40%
investments pledged as collateral security for loans	1,157,865	1,098,513

Midlands Development Agency

The municipality is part of the Development agency established between uMngeni Municipality , Mpofana and uMtshezi Municipalities. For the period under review, the development agency was still in the process of appointing a Board to run the affairs of the Agency. The Agency is fund by the IDC and a bank account is held in the name of uMngeni Municipality, until the Board is appointed to take control of the affairs of the agency.

The bank balance was R 491,271 as at 30 June 2012 held at ABSA Bank LTD. The Municipality has recognised 1 third of the bank balance as an investment.

8. Other receivables

Other receivables	2,516,448	787,945

9. Consumer Debtors

Consumer debtors	67,199,508	55,179,778
Less: Provision for Bad debts	(26,428,801)	(7,843,379)
	40,770,707	**47,336,399**

Management have considered the effects of any impairment in the values of outstanding debtors and the value of the provision for bad debts.

The provision is adequate to account for any material losses expected to arise from any adjustment that are required to be made to the outstanding balance.

Gross amounts		
Rates	36,026,873	31,221,582
Electricity	22,217,981	16,097,370
Refuse	1,607,630	1,455,530
Housing rental	365,181	297,039
Legal costs	76,479	89,031
Sundry debtors	6,905,364	6,019,226
	67,199,508	**55,179,778**
Less: Provision for bad debts		
Rates	3,979,679	4,469,175
Electricity	18,857,262	2,304,238
Refuse	1,346,947	208,350
Sundry debtors	2,244,913	86,161
	26,428,801	**7,067,924**
Net balance		
Rates	32,047,195	26,752,407

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
Electricity	3,360,718	13,793,131
Rentals	365,181	297,039
Refuse	260,683	1,247,180
Legal costs	76,479	89,031
Sundry debtors	5,938,127	5,157,611
	42,048,383	**47,336,399**

Age analysis

Rates		
Current (0 to 30 days)	174,720	(5,795,800)
31 to 60 days	2,629,150	2,131,077
61 to 90 days	1,914,962	1,231,185
91 to 120 days	1,534,481	1,038,794
121 to 150 days	1,283,049	2,577,237
151 days and over	28,490,511	30,039,089
	36,026,873	**31,221,582**

Electricity		
current (0 to 30 days)	5,999,711	4,157,544
31 to 60 days	1,633,371	1,947,540
61 to 90 days	520,517	438,496
91 to 120 days	408,753	332,754
21 days to 150 days	641,778	343,355
151 days and over	13,013,851	9,777,681
	22,217,981	**16,997,370**

Refuse		
Current (0 to 30 days)	319,718	277,937
31 to 60 days	124,462	111,615
61 to 90 days	72,703	58,985
91 days to 120 days	59,736	44,984
121 to 150 days	54,760	38,811
151 days and over	976,251	923,197
	1,607,630	**1,455,529**

Sundries		
Current (0 to 30 days)	867,530	83,138
31 to 60 days	419,465	63,484
61 to 90 days	26,410	437,552
91 to 120 days	425,096	35,467
121 to 150 days	20,614	35,861
151 days and over	5,146,249	5,363,724
	6,905,364	**6,019,226**

Legal costs		
151 days and over	76,479	89,031

Housing		
Current (0 to 30 days)	57,949	48,001
31 to 60 days	28,002	41,306
61 to 90 days	13,960	16,664
91 to 120 days	29,658	3,369
121 to 150 days	6,201	13,944
151 days and over	229,411	173,755
	365,181	**297,039**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
Reconciliation of doubtful debt provision		
Opening balance	7,843,379	2,735,544
Contribition made during the year	18,585,422	5,107,835
	26,428,801	**7,843,379**

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R 26,428,801 (2011: R 7,843,379) were impaired and provided for, this amounted to the bad debts provision.

The municipality profiled all debtors according to their risk profile. This risk profile was then used to calculate the doubtful debt provision.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash on hand	3,260	4,760
Short-term deposits	205,494	-
Bank overdraft	(6,204,218)	(1,412,015)
	(5,995,464)	**(1,407,255)**
Current assets	208,754	4,760
Current liabilities	(6,204,218)	(1,412,015)
	(5,995,464)	**(1,407,255)**

The Municipality has the following bank accounts:

	2012	2011
Current accounts		
Cash book balance (Overdraft) at end of the year	(6,204,218)	(1,412,015)
Absa Bank Limited - Account No.4063796636 :Bank statement balance (Overdraft) at year end(Primary account)	(4,952,898)	3,099,608
First National Bank Limited - Account No. 52530028614: Bank statement balance(Overdraft) at year end	154,878	77,951
Absa Bank Limited- Account No: 4063796636	160,062	-

11. Revaluation reserve

	2012	2011
Opening balance	219,123,488	10,692,825
Change during the year: Property, plant and equipment	18,830,040	208,430,663
Winding down of reserve	(20,872,664)	-
	217,080,864	**219,123,488**

The revaluation reserve has resulted from the revalutation of property, plant and equipment.

12. Housing operating account

	2012	2011
Accumulated deficit	(421,171)	(57,699)
Loans extinguished by Government on 1 April 1998	15,343,977	15,343,977
	14,922,806	**15,286,278**

Figures in Rand	2012	2011

12. Housing operating account (continued)

The housing operating account is represented by the following assets and liabilities

Housing Inventory	14,557,625	14,557,625
Trade and other receivables	365,181	297,039
Bank and cash	-	(57,699)
Investments - External	-	489,313
Assets	**14,922,806**	**15,286,278**

13. Annuity Loans

At amortised cost		
Annuity loans	40,331,850	41,895,162
The loans attract interest rates between 5% and 12.62% per annum, and are being reedemed in monthly and quaterly instalments.		

The annuity loans were acquired for the construction of infrastrucure, construction was completed 2 years previously (2009) the municipality is currently reedeming the amount borrowed.

Non-current liabilities		
At amortised cost	34,058,881	38,982,858
Current liabilities		
At amortised cost	6,272,969	2,912,304
	40,331,850	**41,895,162**

Financial liabilities are recorded at the amount that would be needed to settle the liability.

Financial liabilities were not impaired at year end.

Refer to appendix A for a detailed breakdown of other financial liabilities.

14. Finance lease obligation

Minimum lease payments due		
- within one year	927,802	395,123
- in second to fifth year inclusive	1,226,886	1,207,358
Present value of minimum lease payments	**2,154,688**	**1,602,481**

Non-current liabilities	1,226,886	1,601,306
Current liabilities	949,661	-
	2,176,547	**1,601,306**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 4-5 years.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

In the prior year the finance lease liability was disclosed under other financial liabilities, it has been reclassified in the current year.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Conditional grants from other spheres of government		
Financial management grant	2,697,912	2,065,378
DME Grants	-	2,561,557
Mpopohomeni Nodal development	-	1,257,011
Corridor development	2,729,733	8,984,893
Municipal Infranstructure Grants	5,415,236	4,044,836
Provincial - Library extensions	-	35,923
Provincial - cedara college/Inkhanya village road	-	1,922,650
Library Mpopohomeni Internet cyber cadet	-	84,000
Provincial government	5,548,808	11,820,975
Library Mpopoohomeni - Head count system	-	7,292
MAP Synergistic Partnership	368,389	371,522
Cleanest town award	316,600	316,600
Library Howick west cyber cadet	157,500	59,175
LED strategy corridor funding	-	38,920
Library Nottingham Road staffing costs	64,766	-
	13,661,956	**21,749,757**

Movement during the year

Balance at the beginning of the year	21,749,757	26,823,330
Additions during the year	16,580,698	24,244,413
Income recognition during the year	(24,668,499)	(29,317,986)
	13,661,956	**21,749,757**

See note 23 for reconciliation of grants from other sphere of government.

16. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	7,267,176	834,469	8,101,645

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	6,550,160	717,016	7,267,176

The landfill site provision is raised for the rehabilitation of the refuse disposal site to its original state once the site has reached the end of its useful life.

Figures in Rand	2012	2011

17. Trade and other payables from exchange transactions

Trade payables	16,073,842	29,254,467
Payments received in advanced	1,900,958	8,058,270
Unclaimed deposits	2,696,372	1,096,117
Accrued leave pay	7,634,197	6,845,661
Deposits received	43,742	12,816
Retentions	1,940,023	2,014,546
Other sundry creditors: District municipality	1,090,113	2,749,675
Sundry Creditors	7,674,151	-
Museum trust account	180,023	162,841
	39,233,421	**50,194,393**

The fair value of trade and other payables approximate their carrying amount.

18. VAT payable

VAT payable	2,557,140	2,359,265

VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

19. Consumer deposits

Electricity	2,160,881	2,049,724

20. Revenue

Property rates	91,124,460	76,747,663
Property rates – Penalties imposed and collection charges	2,319,310	3,380,394
Service charges	58,637,395	46,015,209
Rental of facilities & equipment	950,702	789,232
Fines	3,822,767	163,380
Licences and permits	1,929,645	2,940,142
Government grants & subsidies	57,259,012	51,672,544
	216,043,291	**181,708,564**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	58,637,395	46,015,209
Rental of facilities & equipment	950,702	789,232
Licences and permits	1,929,645	2,940,142
	61,517,742	**49,744,583**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	91,124,460	76,747,663
Property rates – Penalties imposed and collection charges	2,319,310	3,380,394
Fines	3,822,767	163,380
Levies	57,259,012	51,672,544
	154,525,549	**131,963,981**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Property rates

Rates received

Residential	59,887,499	69,921,581
Commercial	38,965,950	17,667,028
Small holdings and farms	29,527,977	41,469,388
Education and state	16,801,027	3,259,013
Private open space	4,873,650	26,543
Less: Income forgone rebates	(58,931,643)	(55,595,890)
Income received	91,124,460	76,747,663
Property rates - penalties imposed and collection charges	2,319,310	3,380,394
	93,443,770	**80,128,057**

Valuations

Residential	8,261,966,400	6,200,025,112
Commercial	5,375,669,000	448,538,422
Education and State	2,317,838,000	1,393,131,136
Municipal	426,167,400	-
Agriculture	4,073,624,000	3,809,523,842
Private open space	672,359,600	28,520,900
	21,127,624,400	**11,879,739,412**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2011. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 31 July 2012 (31 July 2011). Interest at 12% per annum (2011: 12%), is levied on rates outstanding one months after due date.

A basic rate of randage is applied to the valuations of all types of properties, the amount is 1.22 cents in the rand (2011: 1.22 cents).

Rebates		
Agriculture - additional	75%	75%
Bona Fide Farmers	0.00%	0.00%
Residential (The first R100,000 is exempt in terms of the Rates policy)	30%	30%
Pensioners (Qualifying on with income up to R9,000 on a sliding scale)	30%	30%
State	30%	20%

22. Service charges

Sale of electricity	50,447,663	36,167,208
Refuse removal	8,189,732	9,848,001
	58,637,395	**46,015,209**

The estimated distribution loss of R18,853,240 (2011: R20,369,254) is noted.

The contractor has finalised the project to identify losses and the recommendation is to undertake a full audit of all electrical installations within the area of supply. There is currently no funding available to begin this process.

The Municipality is applying its Credit Control and Debt Collection Policy and By- Laws in an effort to reduce losses, however the losses are of a technical nature and the Municipality is busy investigating strategies to further reduce the losses.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. Government grants and subsidies

Equitable share	30,559,000	26,617,024
uMgungundlovu District Council - Shared Services model	-	691,900
Municipal Infrastructure Grant	11,976,601	7,052,164
Provincial - Library extensions	35,923	-
Provincial - Cedara College/Inkanyo Village Road	10,829	-
Library Mpopohomeni - Head count system	7,292	-
Library Mpopohomeni Internet Cyber cadet 2010/11	84,000	-
Library Mpopohomeni Internet Cyber Cadet 2011/12	105,800	-
MAP Synergistic partnership	3,133	-
Library Howick West cyber cadet 2010/11	59,175	-
Provincial- museum	125,000	73,000
Provincial health subsidies	2,031,513	1,666,082
Library Howick West cyber cadet 2011/12	22,500	-
Cleanest town	-	265,000
Cyber cadet library	-	179,700
Corridor funding LED strategy	38,920	400,000
Municipal Systems Improvement Grant	790,000	750,000
Finance Manangement Grant	817,466	1,200,000
Mpophomeni Nodal development	1,257,011	5,692,315
Kanya village road cedara	-	77,350
uMgungundlovu district council development - Madela capture site	-	4,305,502
Corridor development	6,255,160	-
Deparment of Minerals and Energy grants	2,561,557	2,702,507
Grant-Library Staffing costs	518,132	-
	57,259,012	**51,672,544**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

	32,590,513	26,617,024

Municipal Systems Improvement Grant

Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	**-**

Finance Management Grant

Balance unspent at beginning of year	(2,065,378)	(1,318,172)
Current-year receipts	(1,450,000)	(1,200,000)
Conditions met - transferred to revenue	817,466	452,794
	(2,697,912)	**(2,065,378)**

Municipal Infrastructure Grant

Balance unspent at beginning of year	(4,044,836)	-
Current-year receipts	(13,347,000)	(7,052,164)
Conditions met - transferred to revenue	11,976,601	3,007,328
	(5,415,235)	**(4,044,836)**

Roads and stormwater infrastructure as part of the upgrade of the informal settlement.

23. Government grants and subsidies (continued)

Department of Minerals and Energy Grant

Balance unspent at beginning of year	(2,561,557)	(5,264,064)
Conditions met - transferred to revenue	2,561,557	2,702,507
	-	**(2,561,557)**

Electrification and new connections.

Mpophomeni Nodal Development

Balance unspent at beginning of year	(1,257,010)	(3,254,005)
Current-year receipts	-	(3,000,000)
Conditions met - transferred to revenue	1,257,010	4,996,995
	-	**(1,257,010)**

Corridor Development

Balance unspent at beginning of year	(8,984,893)	(7,790,395)
Current-year receipts	-	(5,500,000)
Conditions met - transferred to revenue	6,232,040	4,305,502
	(2,752,853)	**(8,984,893)**

National road: N3 corridor development.

Provisonal Library Extensions

Balance unspent at beginning of year	(35,923)	(35,923)
Conditions met - transferred to revenue	35,923	-
	-	**(35,923)**

Library Mpophomeni - Head count System

Balance unspent at beginning of year	(7,292)	(7,292)
Conditions met - transferred to revenue	7,292	-
	-	**(7,292)**

Library Mpophomeni -Internet Cyber Cadet 2010/2011

Balance unspent at beginning of year	(84,000)	(80,000)
Current-year receipts	-	(100,800)
Conditions met - transferred to revenue	84,000	96,800
	-	**(84,000)**

Library Mpophomeni -Internet Cyber Cadet 2011/2012

Conditions met - transferred to revenue	(105,800)	-
Other	105,800	-
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. Government grants and subsidies (continued)

MAP Synergistic Partnership

Balance unspent at beginning of year	(371,522)	(375,257)
Conditions met - transferred to revenue	3,133	3,735
	(368,389)	**(371,522)**

Cleanest Town Award

Balance unspent at beginning of year	(316,600)	(54,300)
Current-year receipts	-	(265,000)
Conditions met - transferred to revenue	-	2,700
	(316,600)	**(316,600)**

Library Howick West Cyber Cadet 2010/2011

Balance unspent at beginning of year	(59,175)	-
Current-year receipts	-	(78,900)
Conditions met - transferred to revenue	59,175	19,725
	-	**(59,175)**

Library Howick West Cyber Cadet 2011/2012

Current-year receipts	(90,000)	-
Conditions met - transferred to revenue	22,500	-
	(67,500)	**-**

LED Strategy Corridor Funding

Balance unspent at beginning of year	(38,920)	-
Current-year receipts	-	(400,000)
Conditions met - transferred to revenue	38,920	361,080
	-	**(38,920)**

Provincial - Cedara College/Inkanya Villlage road

Balance unspent at beginning of year	(1,922,650)	(2,000,000)
Conditions met - transferred to revenue	10,829	77,350
	(1,911,821)	**(1,922,650)**

Library Howick Staffing Costs

Balance unspent at beginning of year	-	-
Current-year receipts	(129,533)	-
Conditions met - transferred to revenue	129,533	-
	-	**-**

Library Mpophomeni Staffing Costs

Balance unspent at beginning of year	-	-
Current-year receipts	(129,533)	-
Conditions met - transferred to revenue	129,533	-
	-	**-**

Figures in Rand	2012	2011

23. Government grants and subsidies (continued)

Library Howick West Staffing Costs

Balance unspent at beginning of year	-	-
Current-year receipts	(129,533)	-
Conditions met - transferred to revenue	129,533	-
	-	**-**

Library Hilton Staffing Costs

Balance unspent at beginning of year	-	-
Current-year receipts	(129,533)	-
Conditions met - transferred to revenue	129,533	-
	-	**-**

Library Nottingham Road Staffing Costs

Balance unspent at beginning of year	-	-
Current-year receipts	(64,766)	-
Conditions met - transferred to revenue	-	-
	(64,766)	**-**

Conditions still to be met - remain liabilities (see note 15).

Museum Howick

Balance unspent at beginning of year	-	-
Current-year receipts	(125,000)	-
Conditions met - transferred to revenue	125,000	-
	-	**-**

24. Other income

Shared services model	771,939	276,662
Compound rental	288	260,731
Building plan fees and drainage fees	1,419,257	1,230,972
Allocation of year end deficit electricity service to accumulated surplus	-	8,172,356
Contribution from accumulated surplus to fund assets - MG counter funding	1,298,814	1,357,805
Allocation of year end deficit of housing fund to accumulstrd surplus	-	1,069,321
Parking reserve fund received	-	190,000
Reconnection fee	241,057	405,897
Hall hire	191,772	158,319
Burial fees	47,691	68,090
Advertising	106,413	106,955
Income from milkwood estates	311,383	184,376
Connection Income	483,073	1,350,008
Income from rendering environmental health services	1,667,405	1,552,222
LGSETA receipts	94,718	216,057
Sponsorship received	42,105	1,100,000
Insurance claim received	229,754	92,989
Sundry income	1,074,474	917,947
	7,980,143	**18,710,707**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. General expenses

Advertising	428,672	410,215
Auditors remuneration	1,341,579	968,509
Bank charges	642,882	629,080
Material and small tools	148,040	208,139
Commission paid	1,134,672	-
Computer expenses	684,050	664,764
Consulting and professional fees	1,540,702	1,967,507
Entertainment	4,664	30,477
Insurance	736,284	714,542
Community development and training	7,111	-
Lease rentals on operating lease	1,186,786	613,748
Promotions and sponsorships	47,850	1,070,000
Magazines, books and periodicals	31,336	30,566
Medical expenses	138	1,709
Motor vehicle expenses	288,073	307,334
Placement fees	6,596,098	9,355,267
Postage and courier	858,241	893,924
Printing and stationery	204,877	284,972
Security (Guarding of municipal property)	3,597,923	3,892,362
Subscriptions and membership fees	1,104,451	384,260
Telephone and fax	1,193,205	1,122,404
Training	20,368	74,731
Travel - local	264,508	288,801
Hygiene services	292,390	160,308
Electricity	4,477,530	2,823,183
Sewerage and waste disposal	808	13,971
Water	1,653,468	176,872
Refuse	222,415	305,065
Uniforms	44,111	602,000
Medical aid retired staff	553,452	446,817
Electricity connections	4,199,887	3,620,980
Contribution to fire fighting services	216,000	200,793
Veterinary department	858,077	520,261
IDP expenditure	99,999	124,211
Other expenses	1,622,874	1,999,808
Valuation expenses	189,299	1,333,479
	36,492,820	**36,241,059**

26. Grant expenditure

Cleanest town award	-	265,000
Libary computer assistant Mpophomeni	235,333	100,800
Library computer assistant Howick west	281,566	78,900
Finance management grant	817,466	1,200,000
LED strategy Corridor development -Shared services planning and development	-	400,000
Municipal systems improvement	790,000	750,000
Shared services planning and development	-	691,900
Libary staffing costs	254,533	-
	2,378,898	**3,486,600**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Employee related costs

Basic	49,578,352	50,047,093
Bonus	4,155,725	3,891,702
Medical aid - company contributions	2,541,526	2,437,420
UIF	394,553	408,428
WCA	432,199	411,314
SDL	635,090	592,896
Leave pay provision charge	2,851,644	1,084,485
Post-employment benefits - Medical aid and long service	1,437,154	4,727,472
Post-employment benefits - Pension - Defined contribution plan	6,462,533	6,417,093
Overtime payments	3,581,509	3,551,295
Car allowance	806,356	817,889
Housing benefits and allowances	229,078	204,580
Cellphone allowance	62,000	58,750
Standby allowance	96,236	75,842
Uniform allowance	3,500	19,500
	73,267,455	**74,745,759**

Remuneration of Chief Financial Officer

Annual Remuneration	713,807	672,895
Travel Allowance	140,858	140,858
Annual Bonuses	59,484	56,075
	914,149	**869,828**

Remuneration of General Manager Technical Services

Annual Remuneration	717,510	676,386
Travel Allowance	140,858	140,858
Annual Bonuses	59,793	56,366
	918,161	**873,610**

Remuneration of General Manager Internal Audit

Annual Remuneration	706,991	666,469
Car Allowance	133,290	133,290
Annual Bonuses	58,916	55,539
	899,197	**855,298**

Remuneration of General Manager Economic development

Annual Remuneration	292,638	662,077
Travel Allowance	58,528	137,683
Annual Bonuses	57,368	55,173
	408,534	**854,933**

Remuneration of General Manager Community Services

Annual Remuneration	717,510	676,386
Travel Allowance	140,859	140,858
Annual Bonuses	59,793	56,366
	918,162	**873,610**

Figures in Rand	2012	2011

27. Employee related costs (continued)

Remuneration of General Manager Planning and Development

Annual Remuneration	713,807	672,895
Travel Allowance	140,859	140,858
Annual Bonuses	59,484	56,075
Acting allowance	53,503	-
	967,653	**869,828**

Remuneration of General Manager Corporate Services

Annual Remuneration	713,807	672,895
Travel Allowance	140,858	140,858
Annual Bonuses	59,484	56,075
Acting allowance	134,188	176,676
	1,048,337	**1,046,504**

Remuneration of General Manager Operations

Annual Remuneration	-	584,614
Travel Allowance	-	121,860
Annual Bonuses	-	79,720
	-	**786,194**

The municipality did not have a Municipal manager is the current year, both the General Manager Corporate Services and General Manager Planning and Development acted as the Municipal manager and received acting allowances as above.

The municipality is currently interviewing for the position of Municpal Manager and one is still to be appointed.

28. Remuneration of councillors

Mayor's allowance	630,735	560,616
Deputy mayor's allowance	280,982	246,343
Speaker's allowance	280,982	249,593
Executive committee allowance	264,155	234,616
Councillors' allowance	3,711,024	2,906,557
	5,167,878	**4,197,725**

In-kind Benefits:

The Mayor is full-time, and is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of Council owned vehicle for official duties.

The Mayor has two full-time bodyguards.

29. Debt impairment

Contributions to debt impairment provision	12,268,824	2,946,920
Debts impaired	6,316,598	1,964,614
	18,585,422	**4,911,534**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

30. Investment revenue

Interest revenue		
Other financial assets	208,954	481,204
Interest charged on trade and other receivables	1,075,725	1,155,131
	1,284,679	**1,636,335**

31. Finance costs

Non-current borrowings	4,854,864	5,523,369
Trade and other payables	378	-
Finance leases	158,638	161,998
Bank	292,056	124,913
Landfill sites	834,469	717,016
	6,140,405	**6,527,296**

32. Auditors' remuneration

Fees	1,341,579	968,509

33. Bulk purchases

Electricity purchases	51,624,822	38,382,635

34. Cash generated from operations

Surplus	13,650,867	14,788,487
Adjustments for:		
Depreciation and amortisation	13,135,518	8,727,163
Gain on sale of assets and liabilities	65,314	215,338
Debt impairment	18,585,422	4,911,534
Movements in retirement benefit assets and liabilities	1,437,154	4,727,472
Movements in provisions	834,469	717,016
Other non-cash items	(20,872,664)	-
Previous year's operating transactions	-	(39,428,595)
Expenditure charged against leave pay	2,851,644	(1,484,765)
Acturial gain/loss and interest cost on retirement benefit obligation	1,305,342	-
Changes in working capital:		
Other receivables	(1,728,503)	(787,578)
Consumer debtors	6,565,692	16,294,908
Trade and other payables from exchange transactions	(10,960,972)	21,296,061
VAT	197,875	(501,675)
Unspent conditional grants and receipts	(8,087,801)	(6,578,757)
Consumer deposits	111,157	498,320
Consumer debtor corrections	3,673,423	-
	20,763,937	**23,394,929**

Figures in Rand	2012	2011

35. Commitments

Authorised capital expenditure

Approved and contracted for		
• Property, plant and equipment	124,051	21,187,845
• Mpophomeni Phase 8&9	26,061,672	-
	26,185,723	**21,187,845**

Approved but not yet contracted for		
• Roads transport	16,190,000	18,506,000

This committed expenditure will be financed as follows:

Internally generated funds	2,252,883	6,416,805
National and Provional government and district municipality	40,142,840	33,277,040
	42,395,723	**39,693,845**

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	876,106	117,116
- in second to fifth year inclusive	1,292,986	292,280
	2,169,092	**409,396**

Operating leases consist of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties and equipment. Leases are negotiated for 3 years for the rental of the taxi rank and printers, and the lease periods for the white house is five years. No contingent rent is payable.

The municipality also leases land used for conservation purposes, the lease term for this land is 99 years. No escalation rate is applicable for the lease term.

Lease rentals for the taxi rank and printers escalate by 10% over the lease periods. Lease rentals for the White house are escalated at 8%.

In the prior year the operating leases were not straight lined.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. Contingencies

As at the end of the financial year the municipality had the following litigation matters outstanding:

Cowcatchers are suing the municipality for attorneys fees resulting from the withdrawal of an application to the high court, for Cowcatchers to cease impounding animals within the municipal area.

Mrs Burns is suing the municipality for a vehicle accident that was caused by driving into a pothole, the matter is still ongoing.

Mr Ngubane is suing the municipality for failure to stage a concert.

JDJ Properties (Pty) Ltd and Double Diamond Vs uMngeni Municipality.

Erf 1297 Hilton and Myks Colier Vs Gama & uMngeni Municipality as second respondent.

Tumbleweed Farm, Dlamini & others Vs uMngeni Municipality.

The municipality is currently involved in a disagreement with Venn Nerneth & Hart regarding amounts due for legal services provided for collection of over due debtors accounts. The amounts due to and from the municipality is yet to be quantified.

Mrs Lorain Burns	800,000	873,145
Skumbuzo Ngubane	62,000	61,070
	862,000	**934,215**

37. Comparative figures

Certain comparative figures have been reclassified.

38. Risk management

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective Financial assets - Investments, Trade and other receivables and the Cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:
- Call deposits
- Notice deposits

Interest rate sensitivity

Hence fluctuations in interest rates will not expose the municipality to any significant interest rate risk. The municipality's income and operating cash flows are not substantially dependent upon on interest received.

39. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated surplus of R 124,413,634 and that the municipality's total assets exceed its liabilities by R 356,341,787.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

Weekly meetings in the form of the Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cash backed.

Two other committees have also being formed after Provincial Treasury provided support to help the Municipality recover from the cash flow challenges it faces.

The Credit control and Valuation sub-committees meet monthly to tackle revenue enhancement issues by addressing the issue of outstanding debtors and valuation queries respectively. These committees have already achieved success by requesting all stakeholders involved in revenue enhancement to account monthly and provide direction on how to maximise revenue and reduce the outstanding debtors

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Going concern (continued)

Council and the Interim Finance committee is committed to turning the situation around and has frozen all vacant posts in order to curb expenditure, except critical posts or those funded by conditional grants.

On the technical side, excess electricity losses have been identified. The Development of the Consumer loss Analysis programme((CLA) is complete and this is specifically written to identify the electricity losses due to technical issues, theft of electricity,Illegal connections, metered installations and correct the electricity billing cycle.

IDT has been appointed to assesst the electricity service and losses and formulate an action plan and report to Council recommedations.

40. Events after the reporting date

Subsequent to year end the municipality transfered the clinic function to the KZN Provisional health department.

41. Unauthorised expenditure

The electricity service has unauthorised expenditure of R16,048,584.17, as a result of the increase in provision for bad debts in the year under review of R12,268,824 and an increase in bulk purchases exceeding budget by R4,868,327.

42. Fruitless and wasteful expenditure

Interest on late payment of annuity loans	**16,509**	-

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of council and the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(1)as stated above.

The reasons for the deviations were documented and reported to the Accounting Officer and the Council who considered them and subsequently approved the deviation from the normal supply chain management regulation.

The majority of the deviations were due to emergencies and amounted to R2,123,293.57 of total expenditure.

Figures in Rand	2012	2011

44. Addional Disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Council subscriptions	359,850	359,850
Amount paid - current year	-	(359,850)
	359,850	**-**

Audit fees

Current year audit fee	1,162,074	1,087,570
Previous years audit fee	-	(1,038,781)
Amount paid - current year	(1,312,056)	-
	(149,982)	**48,789**

VAT

VAT received (paid) for the year	6,885,198	5,938,014

Current year payroll deductions	10,723,612	10,609,162
Amount paid - current year	(10,723,612)	(10,609,162)
	-	**-**

Pension and Medical Aid Deductions

Current year payroll deductions and Council Contributions	14,763,496	14,767,480
Amount paid - current year	(14,763,496)	(14,767,480)
	-	**-**

There were no amounts to due or from Councillors at as the end of the year.

45. Prior period errors

A correction has been made to certain consumer debtor property valuations and meter readings. This resulted in a correction of prior period billings. Both rates and electricity were affected.

Financial period - 2011

Statement of Financial Position and Accumulated surplus

Consumer debtors 2,124,268

Notes to the Annual Financial Statements

Figures in Rand

46. Statement of comparative and actual information

2012

	Original budget	Budget adjustments	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	100,282,212	-	100,282,212	93,443,770	6,838,442	93 %	93 %
Service charges-electricity revenue	40,476,710	-	40,476,710	58,637,395	(18,160,685)	145 %	145 %
Investment revenue	1,601,365	-	1,601,365	1,284,679	316,686	80 %	80 %
Transfers recognised - operational	33,185,973	519,000	33,704,973	50,639,242	(16,934,269)	150 %	153 %
Other own revenue	37,104,564	-	37,104,564	30,319,905	6,784,659	82 %	82 %
Total revenue (excluding capital transfers and contributions)	**212,650,824**	**519,000**	**213,169,824**	**234,324,991**	**(21,155,167)**	**110 %**	**110 %**
Employee costs	(81,510,124)	(471,900)	(81,982,024)	(73,267,455)	(8,714,569)	89 %	90 %
Remuneration of councillors	(4,778,128)	(521,872)	(5,300,000)	(5,167,878)	(132,122)	98 %	108 %
Debt impairment	(1,000,000)	-	(1,000,000)	(18,585,422)	17,585,422	1,859 %	1,859 %
Depreciation and asset impairment	(8,294,823)	-	(8,294,823)	(13,135,518)	4,840,695	158 %	158 %
Finance charges	(5,083,559)	(187,000)	(5,270,559)	(6,140,405)	869,846	117 %	121 %
Materials and bulk purchases	(40,767,343)	-	(40,767,343)	(51,624,822)	10,857,479	127 %	127 %
Transfers and grants	348	(594,000)	(593,652)	(2,378,898)	1,785,246	401 %	(683,591)%
Other expenditure	(84,427,889)	1,180,772	(83,247,117)	(56,993,496)	(26,253,621)	68 %	68 %
Total expenditure	**(225,861,518)**	**(594,000)**	**(226,455,518)**	**(227,293,894)**	**838,376**	**100 %**	**101 %**
Surplus/(Deficit)	**(13,210,694)**	**(75,000)**	**(13,285,694)**	**7,031,097**	**(20,316,791)**	**(53)%**	**(53)%**

Notes to the Annual Financial Statements

Figures in Rand

46. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	13,346,500	-	13,346,500	6,619,770	6,726,730	50 %	50 %
Surplus (Deficit) after capital transfers and contributions	**135,806**	**(75,000)**	**60,806**	**13,650,867**	**(13,590,061)**	**22,450 %**	**10,052 %**
Surplus/(Deficit) for the year	**135,806**	**(75,000)**	**60,806**	**13,650,867**	**(13,590,061)**	**22,450 %**	**10,052 %**

Notes to the Annual Financial Statements

Figures in Rand

46. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	18,506,000	20,003,000	38,509,000	15,648,100	22,860,900	41 %	85 %
Sources of capital funds							
Transfers recognised - capital	13,347,000	20,003,000	33,350,000	21,407,911	11,942,089	64 %	160 %
Internally generated funds	5,159,000	-	5,159,000	1,298,814	3,860,186	25 %	25 %
Total sources of capital funds	**18,506,000**	**20,003,000**	**38,509,000**	**22,706,725**	**15,802,275**	**59 %**	**123 %**
Cash flows							
Net cash from (used) operating	5,226,661	(28,565,000)	(23,338,339)	-	(23,338,339)	- %	- %
Net cash from (used) investing	(13,506,000)	-	(13,506,000)	-	(13,506,000)	- %	- %
Net cash from (used) financing	(1,975,000)	-	(1,975,000)	-	(1,975,000)	- %	- %
Net increase/(decrease) in cash and cash equivalents	**(10,254,339)**	**(28,565,000)**	**(38,819,339)**	**-**	**(38,819,339)**	**- %**	**- %**
Cash and cash equivalents at the beginning of the year	(1,407,255)	-	-	(1,407,255)	1,407,255	DIV/0 %	100 %
Cash and cash equivalents at year end	**(11,661,594)**	**(28,565,000)**	**(38,819,339)**	**(1,407,255)**	**(37,412,084)**	**4 %**	**12 %**